

April 2, 2015

Via Electronic Mail

Robert deV. Frierson, Secretary
Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue, NW
Washington, DC 20551
regs.comments@federalreserve.gov

Re: Risk-Based Capital Guidelines: Implementation of Capital Requirements for Global Systemically Important Bank Holding Companies (Regulation Q; Docket No. R-1505; RIN 7100 AE-26)

Dear Mr. Frierson:

We appreciate the opportunity to respond to the proposed rule issued by the Board of Governors of the Federal Reserve System (the “Federal Reserve”) to further strengthen the capital positions of the largest, most systemically important U.S. bank holding companies (the “Proposal”).¹ The Proposal, which is largely based on an international standard adopted by the Basel Committee on Banking Supervision (“Basel Committee”),² would establish a framework for a risk-based capital surcharge applicable to U.S. bank holding companies (“U.S. BHCs”) that are identified as global systemically important (“G-SIBs”) based on a measure defined by five categories of systemic importance: size, interconnectedness, substitutability, complexity and cross-jurisdictional activity.³ A U.S. BHC with a systemic indicator score of 130 or more would be identified as a G-SIB and subject to a risk-based capital surcharge requirement.

The undersigned institutions are regional banking organizations with total consolidated assets of between \$83.1 billion and \$345.2 billion, as of December 31, 2014, and are traditional banking organizations, focused on domestic business activities, whose sizes are modest in relation to both the U.S. banking sector and U.S. economic activity. For example, each of the undersigned, as of December 31, 2014, had a share of national deposits under 3 percent, total consolidated assets, that represented less than 3 percent of U.S. GDP, and in the aggregate had fewer assets than the single largest U.S.-based G-SIB, as identified by the Financial Stability Board.⁴

¹ Risk-Based Capital Guidelines: Implementation of Capital Requirements for Global Systemically Important Bank Holding Companies, 79 Fed. Reg. 75,473 (Dec. 18, 2014).

² Basel Committee, Global systemically important banks: updated assessment methodology and the higher loss absorbency requirement (July 2013), available at <http://www.bis.org/publ/bcbs255.htm>.

³ The Proposal would also require any U.S. top-tier BHC with \$50 billion or more in total consolidated assets to calculate its systemic indicator score based on the systemic indicators reported by that BHC on its most recent annual Banking Organization Systemic Risk Report (FR Y-15).

⁴ Financial Stability Board, 2014 Update of List of Global Systemically Important Banks (G-SIBs) (Nov. 6, 2014), available at http://www.financialstabilityboard.org/wp-content/uploads/r_141106b.pdf

We support strong capital requirements that are appropriately tailored to an institution's size, complexity and risk profile. Accordingly, we support the Federal Reserve's decision to apply the proposed risk-based capital surcharge to, at most, those U.S. BHCs that are identified as G-SIBs because they have a systemic indicator score of 130 basis points or more as calculated using the proposed five categories of systemic importance: size, interconnectedness, substitutability, complexity and cross-jurisdictional activity. As the Proposal notes, under this methodology only the eight largest and most complex U.S. BHCs would be identified as G-SIBs and subject to the additional, proposed capital surcharge.⁵ This result corresponds with the designation of only these eight U.S. BHCs as G-SIBs by the Financial Stability Board.⁶

The undersigned regional banking organizations are not systemically important, do not present the types of risks that would warrant the imposition of an additional capital surcharge of any sort to mitigate and, appropriately, would not be subject to a surcharge under the Proposal. The Proposal itself recognizes the substantial differences in the systemic indicator scores of G-SIBs and even the largest regional banking organizations. For example, the Proposal notes that "there is a clear separation in systemic risk profiles between the eight U.S. top-tier bank holding companies that would be identified as GSIBs under the proposed methodology and other bank holding companies."⁷

A recent report by the Office of Financial Research ("OFR") that evaluated the systemic importance of the largest U.S. BHCs confirms this analysis and conclusion.⁸ Specifically, the OFR Report illustrates a wide disparity in the systemic importance of institutions that would be identified as G-SIBs under the Proposal and other U.S. BHCs, including the undersigned regional banking organizations. For example, the OFR Report indicates that:

- The lowest systemic indicator score of a G-SIB (1.48) is approximately four times greater than the systemic indicator score of the largest U.S. BHC that would not be identified as a G-SIB (0.38);
- The average systemic indicator score of the eight G-SIBs identified under the Proposal (2.77) is approximately eight times greater than that of the largest U.S. BHC that would not be a G-SIB (0.38); and
- The non G-SIB U.S. BHC with the closest systemic indicator score to the 130 basis point G-SIB threshold falls 92 basis points below that threshold and many other regional banks are more than 100 basis points short of this line.

(hereinafter "FSB G-SIB Designation") (updating the Financial Stability Board's list of G-SIBs using year-end 2013 data and the Basel Committee's July 2013 assessment methodology).

⁵ Proposal, at 75,475.

⁶ See FSB G-SIB Designation.

⁷ Proposal, at 75,478.

⁸ Allahrakha, et al., Office of Financial Research Brief, Systemic Importance Indicators for 33 U.S. Bank Holding Companies: An Overview of Recent Data (Feb. 12, 2015), available at <http://financialresearch.gov/briefs/files/2015-02-12-systemic-importance-indicators-for-us-bank-holding-companies.pdf> (hereinafter "OFR Report").

For the forgoing reasons, we support (i) the use of the five factor test (size, interconnectedness, substitutability, complexity and cross-jurisdictional activity) for assessing the systemic importance of a U.S. BHC, and (ii) a 130 basis point minimum threshold for identifying those U.S. BHC that should be considered a G-SIB and subject to the proposed capital surcharge. As the Proposal notes, this methodology and threshold were developed after consideration of “various potential metrics for evaluating the systemic importance of large banking organizations” and is “intended to capture the bank holding companies that are in [a] separate, higher systemic importance group.”⁹ We believe the proposed methodology and threshold clearly demonstrate that regional banks do not pose systemic risks and should not be subject to any additional capital surcharge.

In light of the significant differences between G-SIBs and regional banking organizations that the Proposal itself recognizes and that are illustrated by the OFR Report, we also strongly believe that the systemic indicator approach should be applied more broadly—both by Congress and the regulators—in determining the scope of regulation and, in particular, macroprudential standards. Using the systemic indicator approach would be significantly more sophisticated than relying on simple asset- or single activity-based thresholds. For example, instead of applying the recently-finalized liquidity coverage ratio (“LCR”) rules to all banking organizations that meet the simplistic application thresholds the banking agencies established for the advanced approaches under their regulatory risk-based capital rules,¹⁰ the banking agencies should instead utilize the newly developed systemic indicator approach included in the Proposal to more appropriately tailor the application of the LCR.¹¹ Unlike static asset- or single activity-based thresholds, the systemic indicator approach is dynamic. BHCs report data underlying the methodology annually on the Banking Organization Systemic Risk Report (FR Y-15)¹² and, as a result, systemic indicator scores are easily calculated and updated annually. Moreover, the systemic indicator approach would more appropriately align with the intent of macroprudential regulation, such as the enhanced prudential standards established under the Dodd-Frank Wall Street Reform and Consumer Protection Act (“Dodd-Frank Act”), which is intended to prevent or mitigate risks to financial stability.¹³

G-SIBs and other U.S. BHCs with total consolidated assets of \$50 billion or more are subject to generally the same rules implementing the Dodd-Frank Act’s enhanced prudential standards. While we recognize the Federal Reserve has made an effort to tailor the rules implementing

⁹ Proposal, at 75,478.

¹⁰ These thresholds—\$250 billion in total consolidated assets or \$10 billion in on-balance sheet foreign exposure—were established in 2003 and have not been revised since then. Risk-Based Capital Guidelines; Implementation of New Basel Capital Accord, 68 Fed. Reg. 45,900 (Aug. 4, 2003).

¹¹ Instead, as finalized, the LCR rules apply the same requirements to certain regional banking organizations as to institutions that would be identified as G-SIBs under the Proposal.

¹² The Federal Reserve makes the information collected on the Banking Organization Systemic Risk Report available to the public via the National Information Center website.

¹³ See 12 U.S.C. § 5365(a)(1) (defining the purpose of the enhanced prudential standards established under section 165 of the Dodd-Frank Act).

those standards,¹⁴ those efforts do not go far enough to implement the authority granted by Congress to differentiate among BHCs in applying those standards. We recognize that the Dodd-Frank Act limits the ability of the Federal Reserve to tailor the application given the language in section 165 requiring more stringent prudential standards for BHC's with assets of \$50 billion or more—effectively the regulatory floor requiring enhanced prudential standards—but, the Dodd-Frank Act also specifically authorizes the Federal Reserve, in implementing enhanced prudential standards, to “differentiate among companies on an individual basis or by category, taking into consideration their capital structure, riskiness, complexity, financial activities (including the financial activities of their subsidiaries), size, and any other risk-related factors that the [Federal Reserve] deems appropriate.”¹⁵ In other words, the Dodd-Frank Act calls for differentiation using the very factors that are reflected in the systemic indicator approach. That approach, not available at the time Congress passed the Dodd-Frank Act but available now, was developed for the very purpose of measuring systemic risk, with greater care and intentionality than the original asset threshold, allowing for the differentiation the Dodd-Frank Act contemplates. Accordingly, when considering tailoring application above the \$50 billion statutory floor, we urge the Federal Reserve (together with the other banking agencies, where appropriate) to employ the systemic indicator approach more broadly to refine and better tailor the application of regulatory requirements, including in every instance involving the application of macroprudential standards.

We thank the Federal Reserve for the opportunity to comment on the Proposal and respectfully ask for consideration of the recommendations and suggestions in this letter. If you have any questions regarding the content of this letter or would like more information on our concerns or recommended alternatives, please do not hesitate to contact any of the individuals listed in Attachment 1 appended hereto.

Sincerely,

BBVA Compass Bancshares, Inc.
Capital One Financial Corporation
Fifth Third Bancorp
M&T Bank Corporation
The PNC Financial Services Group, Inc.
Regions Financial Corporation
SunTrust Banks, Inc.
TD Bank US Holding Company

¹⁴ Enhanced Prudential Standards for Bank Holding Companies and Foreign Banking Organizations; Final Rule, 79 Fed. Reg. 17,240, 17,243 (Mar. 27, 2014) (explaining that the Federal Reserve's set of enhanced prudential standards generally increases in stringency based on the nature, scope, size, scale, concentration, interconnectedness, and mix of the activities of the company).

¹⁵ 12 U.S.C. § 5365(a)(2).

Attachment 1

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